



The Child Care and Development Fund (Fiscal Years 2005-2006) (November 2005)

Background

The Child Care and Development Fund (CCDF) is the primary Federal program specifically devoted to child care services and quality. It enables low-income parents and parents receiving Temporary Assistance for Needy Families (TANF) to work or to participate in the educational or training programs they need in order to work. Funds may also be used to serve children in protective services. In addition, a portion of CCDF funds must be used to enhance child care quality and availability.

The component funds of the CCDF were provided under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). As of October 1, 1996, PRWORA repealed the old welfare-related child care programs provided under the Social Security Act (AFDC/JOBS Child Care, Transitional Child Care, and At-Risk Child Care). The repealed programs were replaced by Mandatory and Matching Funds appropriated for fiscal years (FYs) 1997 through 2002 under a new section (418) of the Social Security Act. The Administration for Children and Families (ACF) re-named the block grant funds provided under the Child Care and Development Block Grant (CCDBG) the Discretionary Fund, to signify that it must be appropriated annually. PRWORA required that the new Mandatory and Matching Funds be transferred to a State's Lead Agency for the CCDBG and be administered by that agency, using CCDBG provisions, as amended by the new Act.

Although the Discretionary Fund is authorized at \$1 Billion (B) a year through FY 2002, Congress has routinely appropriated amounts in excess of \$1 B for each fiscal year through FY 2005 and has proposed appropriations in excess of \$2 B for the CCDBG in FY 2006. Congress has yet to pass reauthorization of PRWORA, but has used separate legislation on numerous occasions to extend appropriations of Mandatory and Matching Funds at FY 2002 levels.

ACF selected the name CCDF to signify the unification of the CCDBG and new child care subsidy funding under the Social Security Act. The preponderance of the funds is distributed to States to operate child care subsidy programs and improve the quality and availability of child care. All children receiving CCDF services benefit from the health and safety requirements, consumer education, parental choice, and other provisions of the CCDBG statute.

The first regulations governing the CCDBG were published on August 4, 1992, and became effective on the same date. ACF published proposed regulatory amendments responding to PRWORA on July 23, 1997. ACF subsequently published the final CCDF regulations on July 24, 1998, effective August 24, 1998.

An ACF-approved CCDF Plan, describing how a Lead Agency will implement the provisions of the CCDBG statute, is required of all grantees on a biennial basis. The current Plan period for FYs 2006-2007 began on October 1, 2005.

Distribution of Funding

Subject to the availability of appropriations, the CCDF is distributed as follows:

- Each fiscal year, ACF reserves $\frac{1}{4}\%$ of the CCDF funds (Mandatory, Matching, and Discretionary) for providing technical assistance to grantees.
- Of the Discretionary Fund, each fiscal year, Indian Tribes and Alaskan Native Villages or regional or village corporations receive 2%, and Territories receive $\frac{1}{2}\%$. Of the remaining amount appropriated for FY 2005, nearly \$10 million (M) was set-aside for use by the Secretary for child care research, and nearly \$1 M was set-aside for the Child Care Aware toll free hotline. States receive the remaining funds out of the Discretionary Fund.
- Of the Matching and Mandatory Funds, Indian Tribes receive 2%, which is comprised entirely of Federal funds. States receive $97\frac{3}{4}\%$ of the Mandatory Funds and are eligible to receive up to $97\frac{3}{4}\%$ of the Matching Funds.
- Grantees must apply for funds and have an ACF-approved biennial CCDF Plan.

States' Share of Funding - FY 2005

In FY 2005, States (including the District of Columbia and Puerto Rico) received a total of nearly \$4.7 B in Federal funds (\$4,674,976,361). This includes Mandatory and Discretionary Funds and the Federal share of Matching Funds.

Mandatory Funds. States (including the District of Columbia) received nearly \$1.2 B in Mandatory Funds (\$1,177,524,781).

These are 100% Federal funds. A State's share of the funds is based on the Federal share of its funding for the now-repealed AFDC-linked child care programs (AFDC/JOBS Child Care, Transitional Child Care, and At-Risk Child Care). The share is based on Federal funds received in FY 1994, FY 1995, or an average of funds received in FY 1992-1994, whichever is greater.

Matching Funds. States (including the District of Columbia) were eligible to receive nearly \$1.5 B in Matching Funds (\$1,478,342,719).

Matching Funds are remainder funds, i.e., the difference between the amount appropriated by Congress for a given year (under section 418(a)(3) of the Social Security Act), less amounts reserved for technical assistance and tribal mandatory funds, and the amount of Mandatory Funds distributed to States. Matching funds are allocated to States on the basis of the number of children under age 13 in a State compared with the national total of children under age 13. (The data is to be based on the best that is available for the second year preceding the allocation.)

In order to receive these funds, a State must: (1) Provide Matching Funds **at the current Medicaid match rate**; (2) Obligate the Federal and State share of Matching Funds in the year in which the Matching Funds are awarded; (3) Obligate all of its Mandatory Funds in the fiscal year in which the Mandatory Funds are awarded; (4) Obligate and expend its Maintenance of Effort (MOE) Funds in the year in which the Matching Funds are awarded. (MOE means a State must continue to expend its own funds at the level it was matching the former AFDC-linked child care programs in FY 1994 or FY 1995, whichever was greater.)

Discretionary Funds. Public Law 108-447, the Consolidated Appropriations Act (2005) appropriated over \$2 B in Discretionary Funds for FY 2005 (\$2,014,728,983) for States (including the District of Columbia and Puerto Rico).

Discretionary Funds are 100% Federal funds and are allocated to the States using a proportional formula based on three factors:

1. The Young Child Factor: The ratio of the number of children under age 5 in the State to the number of such children in all States;
2. The School Lunch Factor: The ratio of the number of children receiving free or reduced lunch in the State to the number of such children in all States;
3. The Allotment Proportion Factor: The per capita income of all individuals in all the States (averaged over a three-year period) divided by the per capita income of all individuals in the State (averaged over a three-year period).

Portions of the Discretionary Funds were appropriated in FY 2005 for the following specific (earmarked) purposes:

\$18,965,721 for child care resource and referral and school-age child care activities, of which \$991,931 was earmarked for the Child Care Aware toll-free hotline;

\$270,471,810 for quality expansion, including \$99,193,100 to improve the quality of infant and toddler care; and

\$9,920,000 for child care research, demonstration, and evaluation activities.

Statutory Limits and Requirements on State Expenditures

States must spend no more than five percent of their CCDF funds (Discretionary, Mandatory, and State and Federal share of the Matching Funds) on administration. Activities such as eligibility determination, child care placement, and providing parents with information about child care services are not considered administration.

States must spend at least four percent of their CCDF funds (Discretionary, Mandatory, and State and Federal share of the Matching Funds) on activities to improve the quality and availability of child care. Appropriate activities include those designed to provide comprehensive consumer education to parents and the public, activities that increase parental choice, and activities designed to improve the quality and availability of child care.

States must spend at least 70% of their Mandatory and Matching Funds on families receiving TANF, transitioning from TANF, or at-risk of becoming eligible for TANF. States are required to demonstrate how they serve those populations in their CCDF Plan. States have the flexibility to define the term "at-risk" and the majority define it as "low income."

Eligible Families

By statute, States may serve families whose parents are working or in education or training, and families whose children are receiving protective services.

By statute, States may serve families whose income level does not exceed 85% of the State Median Income (SMI) for a family of the same size.

The CCDF Plans approved for the FY 2004-2005 biennium indicate that five States placed eligibility levels at 85% of the SMI. (Five States also set their eligibility levels at 85% of the SMI during the 2002-2003 biennium.) Thirty-eight States set eligibility levels in the 50% through 85% range.

Eligible Children

By statute, a State may serve children under age 13.

By regulation, a State may serve children under age 19 who are under court supervision or are mentally or physically incapable of self-care. ACF's analysis of the FY 2004-2005 CCDF Plans found that 34 States indicate they will serve children under court supervision (up from 32 States in the prior biennium); all 50 States will serve children who are incapable of self-care (up from 47 States in the prior biennium).

In FY 2003, States served approximately 1.75 M children through the CCDF program. Center-based providers served 60% of these children. Four percent were in group home child care; 30% were in family child care, and seven percent received care in their own homes.

By statute, States must give priority to children with special needs and to children from very low-income families. States have the flexibility to define "special needs" and "very low income."

States can also give priority to other categories of children. An analysis of State plans for the FY 2004-2005 biennium shows that States additionally have chosen to give priority to such categories as: teen parents, families receiving TANF, families transitioning off TANF, non-TANF teen parents with no high school diploma or GED, families with medical emergencies, parents who are students in post-secondary education, parents in homeless or spousal abuse shelters, children in protective services or in foster care, and children in need of before-and after-school care.

How Families Receive Subsidies and Contribute to the Cost of Care

States have established a variety of methods for accessing CCDF services. In all States, families may apply for child care at the local office of the Lead Agency or at a local voucher management agency or other agency under contract with the Lead Agency to determine eligibility, e.g., local child care resource and referral agencies. Some States allow families to apply for child care by telephone or mail.

The statute provides for parental choice of child care provider. Parents may choose any legally operating child care provider. The regulations define child care provider as one who provides child care either in a center, a group home, a family home, or in the child's own home. (States may limit the use of in-home care.) Care by a sectarian provider, a relative provider, and any other type of legally provided child care are allowable choices.

The statute requires that the family offered CCDF-subsidized care be given the choice to enroll the child with a provider who has a grant or contract to provide services or to receive a child care certificate. A certificate is defined in the statute as a check or other disbursement that is issued by a State or local government under the statute directly to a parent who may use the certificate only as payment for child care services. Some States run all-certificate programs. Others offer a mixture of certificates and grants or contracts.

By statute, a State's CCDF Plan "shall certify that payment rates for the provision of child care services for which assistance is provided [under the CCDF] are sufficient to ensure equal access for eligible children to comparable child care services in the State or sub-State area that are provided to children whose parents are not eligible to receive assistance [under the CCDF] or for child care assistance under any other Federal or State programs." The regulations require that the State describe in its CCDF Plan: 1) How a choice of the full range of providers is made available; 2) How payment rates are adequate based on a local market rate survey conducted within the past two years; and 3) How co-payments based on a sliding fee scale are affordable.

The statute requires that the family contribute to the cost of care on a sliding fee basis. The CCDF Plan must include the scale or scales used to determine the family's contribution. The statute requires that the scale be based on family size and income. The State may add other factors, e.g., the number of children in care, rules for counting income. By regulation, States may exempt families below the poverty level from paying the CCDF co-payment. (Eleven States exempt all families below the poverty level; thirty-nine States exempt some families below the poverty level.)

Quality of Care

By statute, a State must certify that it has in effect licensing requirements applicable to child care services provided within the State. The State must describe those requirements in its CCDF plan as well as how they are effectively enforced. The statute specifies, however, that the requirement does not mean that licensing requirements must be applied to specific types of child care providers.

By statute, a State must certify that there are in place requirements designed to protect the health and safety of children that are applicable to the providers that serve CCDF children. The requirements shall include:

- the prevention and control of infectious diseases (including immunization);**
- building and physical premises safety; and**
- minimum health and safety training appropriate to the provider setting.**

With the exception of relative providers, all providers of care to CCDF children, must meet the basic health and safety standards--whether through licensure or regulation or through requirements designed by the Lead Agency that apply to unregulated providers serving CCDF-subsidized families. (Relative providers are defined as: grandparents, great-grandparents, siblings (if living in a separate residence), aunts, and uncles.)

In view of the language regarding immunization in the statutory health and safety requirements, ACF amended the CCDF regulations in 1998. The regulations now require States to incorporate in their CCDF health and safety standards the latest recommendations of the State public health agency concerning immunizations. However, States are allowed to exempt certain CCDF-subsidized children from the immunization requirement, e.g., for religious reasons, or if children are cared for in their own home. The immunization provision does not impose Federal standards, but permits individual State decisions about immunization requirements and implementation.

In addition to requiring basic licensing and health and safety measures, the current statute supports quality in child care by requiring a minimum State expenditure to improve the quality and availability of child care. States also have flexibility within the CCDF to create payment rates that reward higher quality care, such as establishing higher payment rates for accredited centers or other child care facilities or rewarding in-home providers with appropriate child care credentials.

Prepared by:

Child Care Bureau

Administration for Children and Families